

Institute of Development Studies Kolkata
DD27/D Salt Lake, Sector 1, Kolkata 700064

Conference on

**Rethinking the Role of Business Groups in Contemporary India:
Analyses, Reviews and Reflections**

28-29 March, 2018

Scholarly interest in business groups has intensified in recent years, perhaps because of the long history of persistence and resilience of business groups in spite of highly diverse and occasionally changing institutional contexts in which they thrive in different countries. A business group could be seen as “an informal coalition of legally independent firms, operating in single or multiple industries, which are bound together by persistent formal (equity) and informal (family) ties” (Khanna and Yafeh, 2007). It is rather commonplace to seek explanation of the origin of the business groups in the then prevailing institutional contexts which were typically characterised by under-developed capital markets and high transaction costs. However, with changes in policy regimes and institutional environments over time and across countries, which have culminated in more developed and complex financial markets and better designed regulations, it is unlikely that any generalizable explanation of persistence of business groups in the present world can be arrived at. The diversity of experiences of business groups in different countries calls for more country-specific research on them as they form the dominant mode of economic organisation in many countries. The literature on business groups in India – ranging from the analytically rigorous studies informed by organisational-institutional perspectives, based on such data sources as Prowess, on the one hand, to media commentaries and investigative reports by journalists based on controversial facts, on the other – shows the contested nature of the issues. A comprehensive understanding of the role of business groups in the Indian economy would perhaps require critical inquiries using all possible sources of information.

Empirical evidence shows that the dominance of the business groups in the Indian economy has not declined in the post-reform period. As a matter of fact, the dominance of the top-30 business groups has actually increased while that of the rest of the groups has visibly declined. It is generally believed that business groups have the advantage of internal capital, labour and product markets which help them resolve the so-called ‘institutional void’. Institutional void in the developing countries arises when specialized intermediaries that typically provide these services in developed countries are absent. Indian economy in the pre-reform era could be seen as characterised by greater imperfections in the markets for capital, product and managerial labour, and business groups were supposed to have the necessary resources and capabilities to overcome the problems due to institutional void through their internal markets. Contrarily, it has also been argued that business groups expropriate minority

shareholders through entrenchment, over-exploit natural resources by exercising their power to manipulate, and engage in lobbying with the power-that-be to grab more than their fair share. Business groups also engage in what is called ‘tunnelling of resources through pyramids’ at the expense of minority shareholders. As a well-functioning capital market requires that the minority shareholders benefit from their holdings, tunnelling may pose a serious obstacle to financial development. Moreover, owner managers in group firms may pursue non-profit maximizing objectives that increase their private benefits instead of maximising firm value. It has also been argued that strong dominance by the family business group firms has led to oligarchic control in corporate affairs in India, which is considered to be a major barrier to growth of entrepreneurship and innovation in India. It seems that the core competence of many business groups in India is the ability to manipulate politicians. These firms influence governments through campaign contributions, direct lobbying, government membership on company boards, and at times even bribery. One can even argue that the unholy nexus between politicians and business groups is what largely explains the persistence and resilience of business groups in contemporary India.

Against this background, the Institute of Development Studies Kolkata (IDSK) is organizing a two-day conference on **28-29 March, 2018** on the theme mentioned above, especially in the following areas:

1. Sources of corporate profits in India: role of business groups vis-à-vis stand-alone firms
2. Business groups and the changing nature of competition in post-reform India
3. State, business groups and economic growth
4. Business groups and firm performance
5. Ownership structure and business group affiliation
6. Innovation in business group firms
7. Tunnelling and business group firms
8. Political economy of business group firms in India
